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CONVERTIBLE CORNER: Vector Offers New Sweetener

(This article was originally published Friday.)
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Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- Responding to mounting public concern over nicotine addiction and the cancer-causing effects of cigarettes, tobacco company Vector Group Ltd. (VGR) has come out with a new kind of smokes that they say are nearly free of carcinogens.

And to come up with the money to market the new OMNI and OMNI Nicotine Free brands, the parent of cigarette maker Liggett Group similarly had to make concessions to convertible bond investors who are increasingly demanding favorable terms.

Vector sold $150 million in convertible subordinated notes via Jefferies & Co. late Thursday, and its Vector Tobacco unit plans on using some of the proceeds to help fund a planned advertising and promotion of the new OMNI cigarettes, it said in a press release Friday.

The 6.25% coupon payment on the notes is a bit higher than recent deals, in part to compensate convertible investors for the company's generous 5.5% dividend payment on common stock, said people familiar with the deal.

But Vector also added an innovative sweetener called a pure dividend passthrough that market watchers say is indicative of a shift taking place in market control from the issuers to the investors as conditions have worsened.

"In this environment, it's a little bit more of a buyer's market than a seller's market," said Jeff Seidel, convertible securities strategist at Credit Suisse First Boston. "The dividend passthrough is a good feature for investors, especially hedge funds."

The dividend passthrough means that any dividends paid by Vector are taken out of the conversion price, which represents the stock price at which conversion becomes profitable. Convertible bonds are fixed-income instruments that can be converted into equity.

Vector's convertible was priced off Thursday's closing stock price of $29.70,

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